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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 002039

SIPDIS

USTR FOR NOVELLI AND SAUMS

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TAGS: [ETRD](#) [ECON](#) [PREL](#) [EG](#) [IS](#) [ECONOMY](#) [AND](#) [FINANCE](#) [GOI](#) [EXTERNAL](#) [LABOR](#) [AND](#) [COMMERCE](#)

SUBJECT: GOI DISCUSSES NEXT STEPS ON ISRAEL-EGYPT QIZ

REF: CAIRO 2601

Classified By: DCM Richard LeBaron for Reasons 1.4 (B) and (D)

11. (C) Summary and Action Request. Gabbi Bar, Deputy Director General in the Ministry of Industry, Trade and Labor confirmed to us April 2 that Israel and Egypt had agreed to 11.7% minimum Israeli content for all Egyptian QIZ products. Bar said the next step is a meeting in Athens April 14, where the two sides will try to hammer out a draft agreement. Both sides hope the United States will send a representative to this meeting. The GOI will insist that the agreement consist of one document to be signed by the U.S., Egypt and Israel. The GOI hopes this can happen in May, perhaps at the World Economic Forum meeting in Jordan. Bar said GOE officials indicated to him that President Mubarak may raise QIZs with President Bush during his visit to the U.S. in April. Bar said that because word is already out about the tentative deal with Egypt, the GOI hopes to release a press statement, with GOE concurrence, within the next few days.

12. (C) Embassy would appreciate guidance from Washington on Bar's request that USG representatives attend the planned April 14 meeting in Athens. If Embassy Tel Aviv and/or Embassy Cairo representatives attend, we will need instructions about their role, if any, in drawing up a draft agreement. USTR may also need to make clear to the parties earlier rather than later in what form the U.S. would participate in the Israeli/Egyptian agreement. We may also need press guidance once the Israel-Egyptian deal reached March 30 becomes public. End Summary and Action Request.

"Permanent" Deal Reached on Israeli Content

13. (C) Bar confirmed the terms of the deal reached between Israel's Minister of Industry, Trade and Labor Olmert and Egypt's Minister of Foreign Trade Youssef Boutros Ghali (reftel). He said that both sides had agreed on a "permanent" 11.7% Israeli minimum content level for all Egyptian QIZ products. Undoubtedly, he said, Egypt would try to bargain the content level down at some future date. The Israeli intent, however, was to keep the content level at 11.7% for the foreseeable future. (Note: the minimum Israeli content in the Jordan QIZs is 8%.)

Next Steps - A Meeting in Athens April 14;
A Trilateral Signing in Jordan?

14. (C) Bar said Egypt was anxious to conclude an agreement as soon as possible. Both sides agreed to meet in Athens, April 14 (Bar said this was the earliest practical date for the GOI in light of the Passover holidays). Bar said the two sides would try to draw up a draft agreement in Athens that could be presented to their respective ministers and to the U.S. Bar said both Egypt and Israel hope U.S. representatives can attend the meetings. Officials from Embassy Tel Aviv and Cairo would be welcome, and a USTR representative would "be ideal." Bar said U.S. participation was crucial because the agreement would be trilateral in nature - signed by the "trade ministers" of the U.S., Egypt and Israel. Bar said the GOE knows that Israel will insist on this trilateral formulation and will not accept "parallel" agreements between the U.S. and Egypt and the U.S. and Israel.

15. (C) If all the details could be worked out in April, continued Bar, the GOI hoped the final agreement could be signed in May. One possible venue for a trilateral signing, he said, might be the World Economic Forum meetings in Jordan May 15-17. Ministers Olmert and Boutros Ghali will be there, and he assumed USTR Zoellick would attend. MOIT Deputy Director General Ronit Kan would try to contact USTR shortly, he said, to discuss a possible meeting and signing.

Multiple Zones from the Outset?
Mubarak to Raise QIZs with President Bush?

16. (C) Bar said one key unresolved issue is the number of

QIZs that will be established. Egypt, he said, wants to designate up to seven zones (consisting of already built-up factory areas) as QIZs from the outset. Israel, said Bar, has not taken a position on the issue. Bar understood, however, that USTR preferred to start with only one or two zones at first. Bar said that Egyptian contacts had told him that President Mubarak might raise the issue of multiple zones during his April meeting with President Bush.

GOI Wants to Issue a Press Statement Soon

17. (C) Bar said the GOI had tried to keep the discussions with Egypt out of the press. However, several key Israeli businesspersons with interests in Egypt (such as textile magnate Dov Lautman) were already aware of the deal on Israeli content. More worrying was the fact that Israel's Ministry of Foreign Affairs (through its embassy in Egypt) had caught wind of the deal. Bar said he had refrained from divulging information to MFA or the Israeli Embassy in Cairo because of the fear of leaks. Bar said that since word about the deal was spreading, it was almost certain to be reported in the Israeli media soon. Given these circumstances, Minister Olmert wants to issue a press statement by April 3 (Sunday) or April 4. Bar said Olmert would raise the issue with Boutros Ghali by phone.

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